AmBank Economics

#WhatWeThink

BNM's July MPC meeting meet: An OPR cut in sight

4 July 2025

Executive Summary

We believe the timing is appropriate for a rate cut at the upcoming Monetary Policy Committee (MPC) meeting on July 9, which coincides with the end of the 90-day pause of the US "reciprocal tariff". If implemented, it would mark the Bank Negara Malaysia (BNM)'s first reduction since July 2020, which was during the pandemic, and bring an end to its 26-month rate pause.

Persistently subdued inflation underscores the lack of demand-driven price pressures. Any inflationary risk will likely stem from the supply-side. The relatively stable inflation outlook provides BNM with the policy space needed to reduce interest rates.

We also believe BNM is well-positioned to ease monetary policy without triggering significant volatility across the financial markets. International reserves are currently at multi-year highs, and the ringgit is stable. The rate differential remains manageable, with major central banks also set on a rate-cutting path.

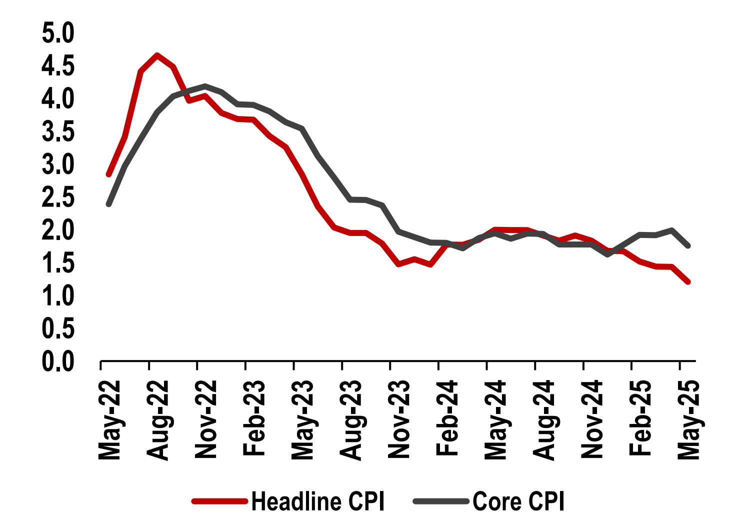
Nevertheless, the rate cut should not be seen as the start of an aggressive easing cycle. With limited imminent risk of recession, a follow-up rate cut is unlikely in the near term. Historically, BNM has only delivered back-to-back rate cuts during periods of recession. We opine that BNM will retain a measured approach to monetary policy easing to preserve currency stability and safeguard financial market conditions.

BNM Interest Rate Decisions 2023-2025

	2023	
	Date	OPR level & Change
1	18-19 January	2.75% (unchanged)
2	8-9 March	2.75% (unchanged)
3	2-3 May	3.00% (+25 bps)
4	5-6 July	3.00% (unchanged)
5	6-7 September	3.00% (unchanged)
6	1-2 November	3.00% (unchanged)
	2024	
	Date	OPR level & Change
1	23-24 January	3.00% (unchanged)
2	6-7 March	3.00% (unchanged)
3	8-9 May	3.00% (unchanged)
4	10-11 July	3.00% (unchanged)
5	4-5 September	3.00% (unchanged)
6	5-6 November	3.00% (unchanged)
	2025	
	Date	OPR level & Change
1	22 January	3.00% (unchanged)
2	6 March	3.00% (unchanged)
3	8 May	3.00% (unchanged
4	9 July	
5	4 September	
6	6 November	

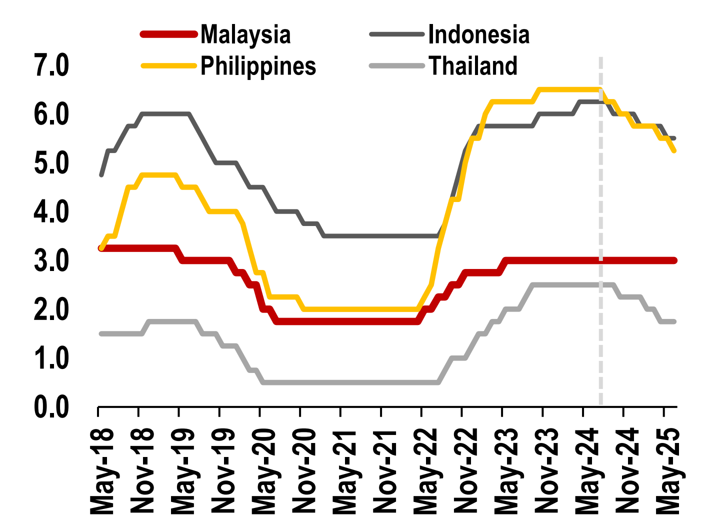
Sources: BNM, AmBank Economics

Exhibit 1: Malaysia's Inflation Rate, y/y%



Sources: DOSM, AmBank Economics

Exhibit 2: Policy Rates in selected ASEAN economies, %



Sources: Respective central banks, AmBank Economics

The case is building for an OPR cut

The timing is appropriate for a rate cut at the upcoming MPC meeting on July 9.

With mounting headwinds to growth and tentative signs of moderating economic conditions, **we believe the timing is appropriate for a rate cut at the upcoming MPC meeting on July 9,** which coincides with the end of the 90-day pause of the US "reciprocal tariff". If implemented, it would mark the BNM's first reduction since July 2020, which was during the pandemic, and bring an end to its 26-month rate pause.

The potential of a period of below-trend growth supports the case for a rate cut.

The potential of a period of below-trend growth amid global headwinds supports the case for a rate cut. Reflecting this softer outlook, BNM has indicated that a slight downward revision to its 2025 GDP growth forecast of 4.5%-5.5% may be warranted. Similarly, both the International Monetary Fund (IMF) and World Bank have lowered their growth projection for Malaysia to 4.1% and 3.9%, from 4.7% and 4.5%, respectively.

Early signs of weaker sentiment amid higher uncertainties affecting spending and investments may be starting to emerge.

BNM has cited weaker sentiment amid higher uncertainties affecting spending and investments as a potential drag on growth. Early signs of this may be starting to emerge, with loan growth moderating to an average of 5.3% in the first five months of 2025, compared to 5.9% in 2024 as lending to both households and businesses slowed. Likewise, the July manufacturing Purchasing Managers' Index (PMI) report indicated that business confidence remained below historical average, with manufacturers continuing to express concern over global economic conditions and their impact on demand.

Persistently subdued inflation underscores the lack of demand-driven price pressure.

Persistently subdued inflation underscores the lack of demand-driven price pressures. Latest reading showed core inflation, which excludes administered prices such as fresh foods and fuel, eased to 1.8% y/y in May, slightly below the long-term average. At the same time, producer price inflation has remained in negative territory since March, indicating that underlying cost pressures remain muted. This came despite a tight labour market, as evidenced by the record low unemployment rate of 3.0%, suggesting a low propensity to spend and lingering weakness in consumer sentiment.

The relatively stable inflation outlook gives BNM the policy space needed to reduce interest rates.

Our inflation outlook aligns with the BNM's, with overall price pressures expected to remain contained in the absence of demand-pull factor. Any upward pressure is likely to stem from the supply-side, such as the planned Sales & Services Tax (SST) expansion, RON95 subsidy rationalisation and electricity tariff adjustments, though these are unlikely to pose a persistent inflation threat. The relatively stable inflation outlook provides BNM with the policy space needed to reduce interest rates.

BNM is well-positioned to ease monetary policy without triggering significant volatility across the financial markets

We also believe BNM is well positioned to ease monetary policy without triggering significant volatility across the financial markets. International reserves are currently at multi-year highs, providing a solid buffer against external shocks. The ringgit has stabilised between 4.20 to 4.30, rallying about 6.0% against the USD this year thus far. Moreover, the spread between Malaysia's Overnight Policy Rate (OPR) and the US' Fed Funds Rate (FFR) stood at minus 150 bps (3.00% minus 4.50%). Based on the latest US Fed Summary Economic Projections (SEPs), policymakers are leaning towards two rate cuts for FFR in 2025 and should this materialises, BNM has room for a possible OPR reduction which could maintain a reasonable spread with the FFR. Some major economies seem to be settling into a lower-rate environment – shifting their move from focusing on taming the inflation for the past three years to sustain the economic growth. Additionally, most regional peers also have already embarked on such a journey, with the Philippines bringing the total rate reductions to 125 bps since August last year.

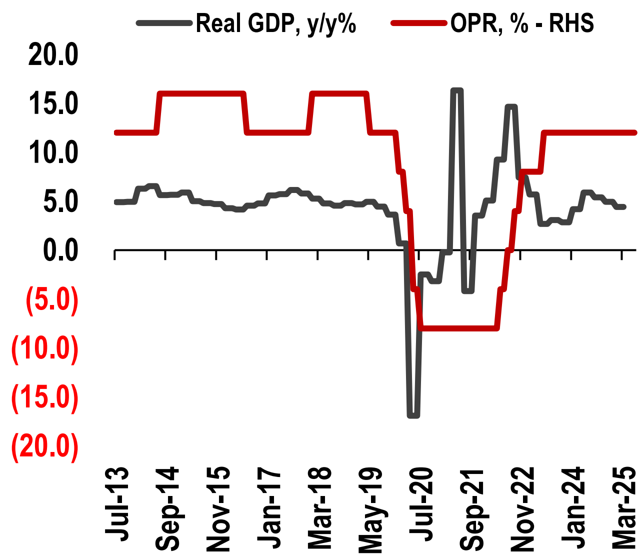
Bond market is half pricing in an OPR cut.

Meanwhile, the MGS market modestly strengthened last month, increasing bond players' pricing after a BNM policy rate cut. The net buying interest was particularly noted on heavier volume traded, post-release of the May CPI data. The 3Y MGS is currently near the 3.10% level or a small spread of 10 bps above the OPR. Ahead of the May CPI release, the 3Y MGS was nearer to the 3.20% level. Historically, in an environment of expected stable OPR outlook, the 3Y/OPR spread is about 25 bps. Near the current 10 bps, the bond market is essentially about half pricing in a BNM cut. If a BNM cut occurs, we foresee the 3Y MGS to rally by another 10 bps. However, the potential 10 bps rally may instead take a couple of weeks to complete as we suspect bond players will thereafter scrutinise the next step in BNM policy. We also think local MGS players will scrutinise MYR direction, which has rallied to multi-year highs, as well as the Fed's immediate policy narrative and direction.

A follow-up rate cut is unlikely in the near term.

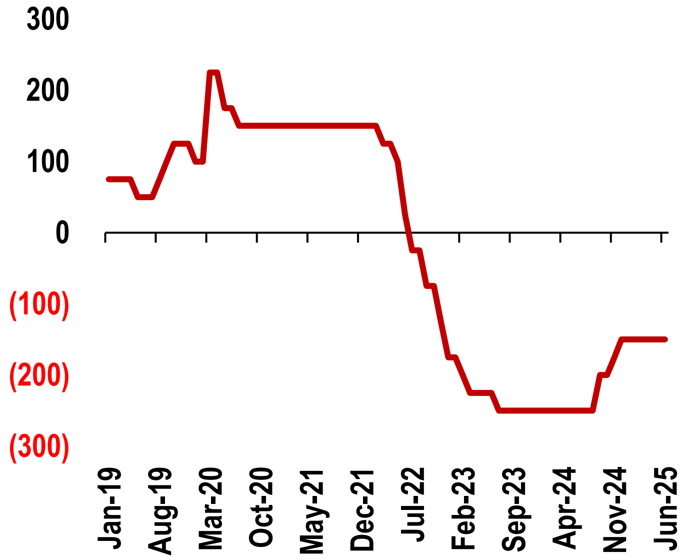
Nevertheless, the rate cut should not be considered the start of an aggressive easing cycle. With limited imminent risk of recession, a follow-up rate cut is unlikely in the near term. Historically, BNM has only delivered back-to-back rate cuts during periods of recession. We opine that BNM will retain a measured approach to monetary policy easing to preserve currency stability and safeguard financial market conditions.

Exhibit 3: GDP growth vs. OPR



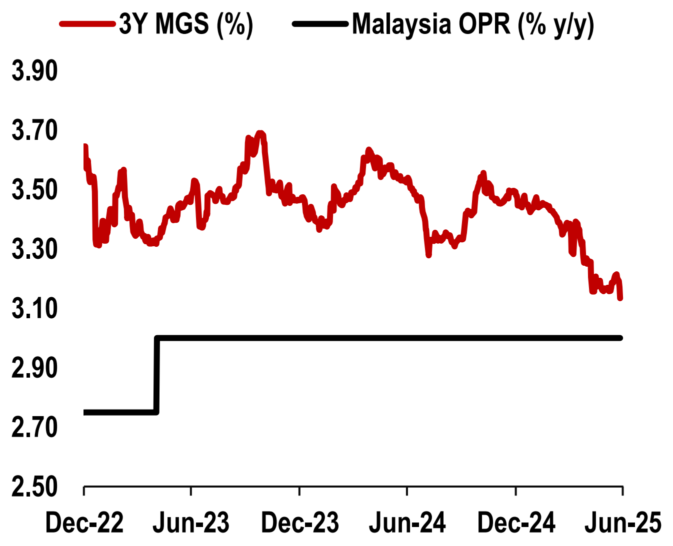
Sources: BNM, AmBank Economics

Exhibit 4: OPR-FFR spread, bps



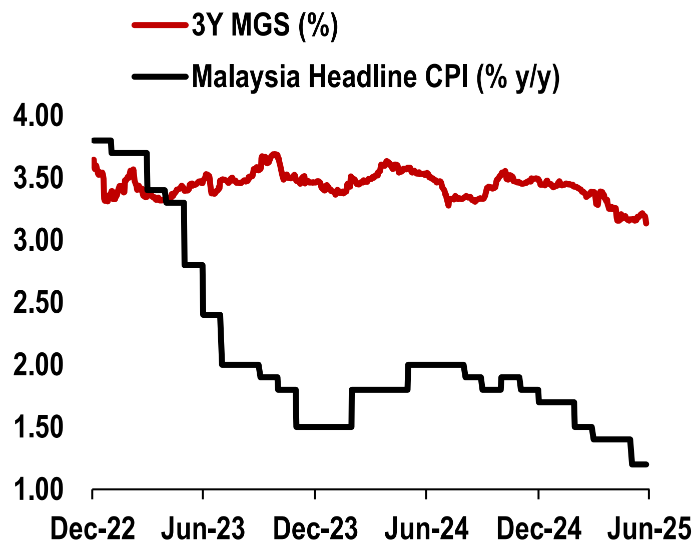
Sources: Respective central banks, AmBank Economics

Exhibit 5: 3Y MGS vs. OPR, %



Sources: Bloomberg, BNM, AmBank Economics

Exhibit 6: MGS vs. CPI, %



Sources: Bloomberg, DOSM, BNM, AmBank Economics

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